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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2016/2017

DTX5028 – TAXATION 2

(All sections)

1 MARCH 2017

9.00a.m. - 12.00p.m.

(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 11 pages (10 pages with 5 questions and 1 page for appendix).
2. Attempt ALL questions.
3. Write your answers in the answer booklet provided.

QUESTION 1 [TOTAL 30 MARKS]

Nazri Manufacturing Sdn Bhd is a locally incorporated resident company. It manufactures electronic components for several brands of locally assembled cars. It closes its accounts on 31 December each year.

The results for the year ended 31 December 2016 is appended below:

Nazri Manufacturing Sdn Bhd

Statement of Comprehensive Income for the year ended 31 Dec 2016

| | Note | RM'000 | RM'000 |
|----------------------------------|------|----------------|----------------|
| Sales | | 292,000 | |
| Less: Cost of sales | | <u>159,000</u> | |
| Gross profit | | 133,000 | |
| Add: Other income | | | |
| Dividend | 1 | 26 | |
| Interest | 2 | 24 | |
| Rental | 27 | 77 | |
| | | 133,077 | |
| Less: Expenses | | | |
| Salaries and wages | 3 | 820 | |
| Loan interest | 4 | 70 | |
| Entertainment | 5 | 200 | |
| Depreciation | | 60 | |
| Repair and maintenance | 6 | 225 | |
| Bad debts and doubtful debts | 7 | 469 | |
| Motor vehicle expenses | 8 | 60 | |
| Staff welfare | 9 | 167 | |
| Advertisement and publicity | 10 | 458 | |
| Professional fees | 11 | 93 | |
| Donation | 12 | 200 | |
| Insurance premium (import cargo) | | 30 | 2,852 |
| Profit before taxation | | | <u>130,225</u> |

Continued.....

Notes to the accounts:

1. Dividend

The company received a single tier dividend of RM14,000 paid by a local listed company in September 2016 and RM12,000 dividend from an investment in a foreign company that was remitted to Malaysia in November 2016.

2. Interest

RM12,000 was interest of fixed deposit with a foreign bank and another RM12,000 was received from a local bank.

3. Salaries and wages

The remuneration package for the managing director under 'wages and salaries' includes payments made to him as follows:

| | Particulars | RM'000 |
|-----|------------------------------------|------------|
| (a) | Salary | 150 |
| (b) | Bonus | 50 |
| (c) | EPF contribution | 45 |
| (d) | Salary to disabled employees | 27 |
| (e) | One free overseas trip to director | <u>18</u> |
| | Total | <u>290</u> |

4. Loan Interest

Interest charges consist of the following:

- (a) RM50,000 was interest paid for a working capital loan to purchase assets of the business.
- (b) RM20,000 is interest on a loan taken to purchase shares from which the dividends were received.

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5. Entertainment

Entertainment consists of the following expenses:

| Particulars | RM'000 |
|---|-------------------|
| (a) Company annual dinner | 20 |
| (b) Entertainment expenses of clients | 70 |
| (c) Entertainment allowance to staff | 20 |
| (d) Lunch provided by company | 10 |
| (e) Promotion expenses for the company's products | 80 |
| Total | <u>200</u> |

6. Repair and maintenance

| Particulars | RM'000 |
|---|-------------------|
| (c) Extension of the sales office | 30 |
| (d) Replace the old (entire) asset | 90 |
| (e) Replace part of components on machinery | 25 |
| (d) Renovation of factory | 80 |
| Total | <u>225</u> |

7. Bad debts and doubtful debts

| Particulars | RM'000 |
|---|-------------------|
| (a) Bad debts written off | 88 |
| (b) General bad debts provision | 200 |
| (c) Specific bad debts provision | 135 |
| (d) Bad debts (staff commission written off) | 16 |
| (e) Bad debts (advance to supplier written off) | 30 |
| Total | <u>469</u> |

8. Motor vehicle expenses RM9,000 relates to traffic offences by the company's marketing staff. RM51,000 refers to repairs, spares, insurance and road tax for the company commercial vehicles.

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9. Staff welfare

During the year, the company purchased a building to provide child care facility for its employees. It was incurred RM100,000 for building and RM47,000 for maintenance of its premise. The company also provided staff medical and dental benefits for RM20,000.

10. Advertisement and publicity

The company spent RM200,000 to participate in International Standardization Activity as approved by Department Standards Malaysia and RM80,000 was spent on hard print advertising to promote this patented product.

It also spent RM128,000 for provision of library facilities. Other general advertising expenses was spent on local television advertisement and free gift to dealers upon purchase of a specified quantum of goods. The cost of gift during the year was RM50,000.

11. Professional fees

During the year, the company had incurred the following professional charges:

| Particulars of expenditure | RM'000 |
|---|-----------|
| (a) Fees on renewal existing trademark | 9 |
| (b) Guarantee fee for a bank loan | 14 |
| (c) Lease arrangement for the motor vehicle and plant | 10 |
| (d) New supply contract | 5 |
| (e) Accounting fees | 6 |
| (f) Audit fees | 12 |
| (g) Staff recruitment charges paid to employment agency | 37 |
| Total | <u>93</u> |

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12. The following donations were made:

| Particulars | RM'000 |
|--|------------|
| (a) To an approved institution | 24 |
| (b) Sports equipment for an activity approved by Minister | 50 |
| (c) Cash donation to Selangor State Government | 80 |
| (d) To a project of national interest approved by Minister | 16 |
| (e) Cash donation to old folks home approved by Minister | <u>30</u> |
| Total | <u>200</u> |

13. Other information:

For the year assessment 2016, the company is claiming capital allowance of RM10,827,000 on its assets used in the business.

Required:

Based on the information given, compute the chargeable income of Nazri Manufacturing Sdn Bhd for the year assessment 2016.

Note:

Your computation should start with the profit before taxation and follow the description used in the Statement of Comprehensive Income. You should indicate 'Nil' or 0 where no adjustments are made or are not required. (30 marks)

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QUESTION 2 [TOTAL 10 MARKS]

Graha Sdn Bhd, a Malaysian resident company, was awarded a mega project by the Kedah state government to construct a theme park in Pulau Langkawi, Kedah. The project involves a consortium of contractors and suppliers from Malaysia as well as from Singapore and Taiwan counterparts. The project started in June 2015 and is expected to complete in December 2016.

The following payments were made by Graha Sdn Bhd to its contractors and suppliers during the year 2015:

- (i) RM15,000,000 lump sum payment to Locumn Pte Ltd, a Singapore company, consists of:
- | | RM |
|--|-----------|
| (a) Payment for materials | 2,000,000 |
| (b) Payment for lease of high-tech equipment | 1,000,000 |
| (c) Contract service | 5,000,000 |
- (ii) Payment of RM4,000,000 to Annke Plc Ltd, a Taiwanese company, for the use of patent and design in the project.
- (iii) Payment of RM3,200,000 to Robocom Sdn Bhd, a Malaysian resident company located in Singapore for consultancy services.

Required:

State with reason(s) whether the above payments are subject to withholding tax and state the amount of withholding tax to be paid (if applicable). (10 marks)

Continued.....

QUESTION 3 [TOTAL 20 MARKS]**PART A**

Anello Manufacturing Sdn Bhd is floor tiles manufacturer, a local resident company incorporated in 2007. It closes the accounts on 31 December each year. In 2013, the company wanted its own factory and accordingly purchased a piece of land and completed construction in April 2014. The relevant expenditure incurred are as follows:

Anello Manufacturing Sdn Bhd

| Particulars of expenditure | RM |
|---|-------------------------|
| Cost of land | 312,000 |
| Legal fee for transfer of land | 31,193 |
| Clearing of land | 116,973 |
| Cutting and leveling land | 70,184 |
| Excavation and preparation of site for construction | 63,165 |
| Piling and foundation works | 113,074 |
| Construction of building | 278,897 |
| Construction of wall | 27,294 |
| Architect fee-building design | 109,175 |
| Legal services for obtaining various building approval | 50,688 |
| Subcontract charges for installation of wiring and plumbing | 57,707 |
| Landscaping charges | <u>62,386</u> |
| Total | <u>1,292,736</u> |

The production demand exceeded expectation and the factory building was found to be inadequate to support the demand. In October 2016, the land and the building was sold for RM1.8 million. It was agreed that the land portion of the sale was RM800,000.

Continued.....

Required:

With reference to the Income Tax Act 1967 (as amended), compute the following:

- i) The qualifying industrial building expenditure.
- ii) The industrial building allowance due for the years of assessment 2014 to 2016.
- iii) The balancing allowances or charges (as the case may be) upon disposal of the land and the building in 2016. (9 marks)

PART B

A new motor car amounting RM135,000, has been wholly used by Kyle's trader business since its acquisition on 12 January 2012. On 30 October 2015 she disposed the car for RM75,000. The first set of accounts was made up to 31 December 2013, and it continues annually at 31 December.

After disposing the motor car, she was thinking to a new motor car (bigger than previous motor car) for her business use. On 21 November 2015, Kyle decided to purchase a new van to be wholly used in her business.

Below are the details of the acquisition of the van:

| | RM'000 |
|---|-----------------|
| Cost of van | 110 |
| Less: Downpayment | <u>(62)</u> |
| Principal sum financed (exclude interest) | <u>48</u> |
| Total number of instalments | 24 |
| First instalment | 1 December 2015 |

Required:

- i) Compute the capital allowance in respect of the motor vehicle for YA 2013, 2014 and the balancing charge/allowance upon its disposal in YA 2015.
- ii) Compute the capital allowances in respect of the van in YA 2015 and 2016.

(11 marks)

Continued.....

QUESTION 4 [TOTAL 20 MARKS]

Puan Syakila is a Malaysian citizen, and operates a restaurant and food catering partnership business with Khuzairy. The accounts of the partnership are made up to 31 December each year. The partnership terms are as follows:

- i) Interest of 5% per annum to be paid to Syakila and Khuzairy on their capital contribution of RM200,000 and RM140,000 respectively.
- ii) Syakila and Khuzairy are to be paid salaries of RM7,000 and RM6,000 per month respectively.
- iii) Profit sharing ratios of 2/3 for Syakila and 1/3 for Khuzairy.

On 1 July 2016, Khuzairy left the partnership and Ariana joined as a new partner with a capital contribution of RM200,000. The new partnership maintains its accounts to 31 December each year. The profit sharing ratio and terms of the partnership were changed effective from 1 July 2016 as follows::

- i) Syakila and Ariana will receive an interest of 5% per annum based on their capital contribution.
- ii) A salary of RM8,000 per month is to be paid to each partner.
- iii) Effective from 1 July 2016, the profit sharing ratio for the partners is 1:1.
- iv) The provisional adjusted income of the partnership for the year of assessment 2016 are as follows:

| | |
|-----------------------|-----------|
| 1.1.2016 – 30.6.2016 | RM130,000 |
| 1.7.2016 – 31.12.2016 | RM130,000 |

- v) The capital allowance for the year assessment 2016 amounting RM40,000.

Required:

Compute adjusted income and statutory income for the partnership business of Puan Syakila, Khuzairy and Ariana for the year assessment 2016. (20 marks)

Continued.....

QUESTION 5 [TOTAL 20 MARKS]

Mr. Loui purchased a piece of land and signed an agreement on 14 July 2012 with agreed price of RM339,270. He settled the full payment of the acquisition on 30 September 2012 upon obtaining a bank loan. The vendor then transferred the land to him on 21 November 2012. Mr. Loui incurred the following expenses in acquiring the land: stamp duty of RM5,785 and legal fees of RM2,825. Mr. Loui spent RM47,340 for levelling the land after the purchase.

In February 2013, the land was partially damaged by a flash flood and he was paid a compensation of RM30,000. Again in April 2014, the land was flooded, and he received a further compensation of RM15,000.

In October 2014, Mr. Loui decided to sell the land. He advertised the land and a buyer responded and paid a deposit of RM7,000 after few negotiations. The buyer was not successful in obtaining a bank loan to buy the land, and Mr. Loui forfeited the deposit of RM7,000.

A dispute arose regarding the title of the land from a third party, and Mr. Loui required a lawyer service to successfully defend his right on the land. The legal fee was RM7,000. Subsequently, other buyer agreed to purchase the land for RM433,950 after a hard bargain, and he signed an agreement with Mr. Loui on 15 October 2015. The payment was settled on 15 November 2015. The title was transferred to the buyer on 15 December 2015.

In securing a buyer for the land, Mr. Loui had incurred the following expenditure: valuation fee: RM6,707; advertisement: RM1,184; brokerage fee; RM9,468. Mr. Loui also incurred an interest charge of RM63,120 on the mortgage loan to acquire the land, and RM3,400 of legal fee.

Required:

In relation to the Real Property Gains Tax Act 1976, compute the Real Property Gains Tax for disposal of the land. (20 marks)

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APPENDIX

The following rates and allowances are to be used in answering all questions:

Rates of Capital & Industrial Buildings Allowances for YA 2016:

| Fixed assets/ Rate | Initial Allowance | Annual allowance |
|--|-------------------|------------------|
| Motor vehicles, Heavy machinery | 20% | 20% |
| Plant & Machinery (general) | 20% | 14% |
| Office equipment, Furniture & Fittings | 20% | 10% |
| Industrial building | 10% | 3% |
| Public roads and ancillary structures which are recoverable through toll | 10% | 6% |

Rates of Agriculture Allowances YA 2016:

| Capital expenditure incurred on: | Rate |
|---|------|
| (a) the clearing and preparation of land for the purpose of agriculture | 50% |
| (b) the planting (but not replanting) of crops on land cleared for planting | 50% |
| (c) the construction on a farm of roads or bridges | 50% |
| (d) construction on a farm of a building for the welfare or living accommodation (labour quarter, temple) | 20% |
| (e) construction of any other building (smoke house, estate office) | 10% |

Rates of Real Property Gains Tax: Effective 1st January 2014 onwards

| Real property | Malaysian Individual (Permanent resident or citizen) | Foreigners | Companies |
|--|---|------------|-----------|
| Disposal within 3 years | 30% | 30% | 30% |
| Disposal in the 4th years after the acquisition date | 20% | 30% | 20% |
| Disposal in the 5th years after the acquisition date | 15% | 30% | 15% |
| Disposal in the 6th years after the acquisition date or thereafter | Nil | 5% | 5% |

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